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Directive 006

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Licensee Liability Rating (LLR) Program and Licence Transfer Process

The Energy Resources Conservation Board (ERCB/Board) has approved this directive on September 15, 2009.

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Chairman

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1 Purpose of the LLR Program

The purpose of the Energy Resources Conservation Board (ERCB) LLR Program and licence transfer process as set out in this directive is to

- prevent the costs to suspend, abandon, remediate, and reclaim a well, facility, or pipeline in the LLR Program from being borne by the public of Alberta should a licensee become defunct, and
- minimize the risk to the Orphan Fund posed by the unfunded liability of licences in the program.

2 What's New in This Edition

This directive incorporates the expansion of the ERCB's Liability Management Rating (LMR) assessment process resulting from the ERCB's implementation of the Oilfield Waste Liability (OWL) Program. It also contains minor administrative changes and a reorganization of information to parallel the structure of *Directive 024: Large Facility Liability Management (LFP) Program* and *Directive 075: Oilfield Waste Liability (OWL) Program.* This edition replaces the September 20, 2005, edition of *Directive 006.*

3 Scope of the LLR Program

The LLR Program applies to all upstream oil and gas wells, facilities, and pipelines included within the scope of the expanded Orphan Fund. A description of the ERCB-approved well, facility, and pipeline types included in the LLR Program is in Appendix 1.

4 Definitions

For the purpose of this program:

- **Eligible producer licensee** is a licensee whose deemed assets from production volumes reported to the Petroleum Registry of Alberta (PRA) have fallen below its deemed liabilities in the LLR Program and is therefore eligible to have any deemed assets from midstream activities in the LLR, LFP, and OWL programs included in its LMR deemed asset calculation.
- **Liability assessment** is an assessment conducted by a licensee to estimate the cost to suspend, abandon, remediate, and reclaim a site.
- **Large Facility Liability Management Program (LFP)** is the liability management program governing the large upstream oil and gas facilities specified in Appendix 1 of *Directive 024.*
- **Liability Management Rating (LMR)** is the ratio of a licensee's eligible deemed assets in the LLR, LFP, and OWL programs to its deemed liabilities in these programs.
- **Licensee Liability Rating (LLR) Program** is the liability management program governing most conventional upstream oil and gas wells, facilities, and pipelines, as specified in Appendix 1 of *Directive 006.*

- **Midstream activity** is the handling of third-party volumes for a fee or other consideration by a well or facility included in the LLR Program. For the purpose of this program, midstream activities include the operation of a nonsulphur recovery gas plant, gas storage scheme, custom processing facility, water or gas injection or disposal well, gas gathering, transportation or compression scheme, gas storage scheme, marketing, and/or any other activity determined by the ERCB to be a midstream activity.
- **Netback** is earnings before interest, taxes, and depreciation and is equal to gross margin (midstream revenue less cost of goods sold) less direct operating costs and applicable general and administrative expenses.
- **Nonproducer licensee (NPL)** is a licensee whose deemed assets from midstream activities in the LLR, LFP, and OWL programs exceed its deemed assets from production volumes reported to the PRA or a licensee having only facilities included in the LFP or OWL programs.
- **Oilfield Waste Liability (OWL) Program** is the liability management program governing oilfield waste management facilities specified in Appendix 1 of *Directive 075.*
- **Producer licensee** is a licensee whose deemed assets from production volumes reported to the PRA exceed its deemed liabilities in the LLR, LFP, and OWL programs.
- **Site-specific liability** is the estimated cost to suspend, abandon, remediate, and reclaim a facility in the LLR Program.

5 Liability Management Rating Assessment

The ERCB's LMR assessment is a comparison of a licensee's deemed assets in the LLR, LFP, and OWL programs to its deemed liabilities in these programs. Any security deposit provided to the ERCB as a result of the operation of these programs is considered in determining a licensee's "security-adjusted" LMR. The LMR assessment is designed to assess a licensee's ability to address its suspension, abandonment, remediation, and reclamation liabilities. This assessment is conducted monthly and on receipt of a licence transfer application in which the licensee is the transferor or transferee. The determination of deemed assets and deemed liabilities in each of these programs is documented in

- this directive and *Directive 011: Licensee Liability Rating (LLR) Program—Updated Industry Parameters and Liability Costs*, for licences included in the LLR Program;
- *Directive 024,* for licences included in the LFP;
- *Directive 075,* for licences and approvals included in the OWL Program; and
- Directive 001: Requirements for Site-Specific Liability Assessments in Support of the EUB's Liability Management Programs, for licensees required to provide a site-specific liability cost estimate.

If a licensee's deemed liabilities in these three programs exceed its deemed assets in these programs plus any previously provided security deposits (including facility-specific security deposits), it has a security-adjusted LMR below 1.0 and is required to provide the ERCB with a security deposit for the difference.

A security deposit determined as a result of an LMR assessment is required to minimize the possibility of the licensee's suspension, abandonment, remediation, and reclamation costs being borne by the Orphan Fund.

For LMR calculation purposes, 100 per cent of the deemed assets and 100 per cent of the deemed liabilities of a well or facility for which it is the licensee are attributed to the licensee.

6 LMR Security Deposit Requirements

The ERCB conducts its LMR assessment on the first Saturday of each month, following receipt of updated production information from the PRA.

A licensee required to provide the ERCB with a security deposit as a result of a monthly or transfer LMR assessment will be advised in writing of the amount of the security deposit required and the date by which the security deposit must be received. The date specified for payment of a monthly LMR assessment is ordinarily the Friday before the first Saturday of the following month.

If a licensee in the LLR, LFP, or OWL programs becomes defunct:

- any non-facility-specific LMR security deposit held by the ERCB will be allocated to address its unfunded suspension, abandonment, remediation, or reclamation liability in each program in which it had liability in proportion to its deemed liability in each program; and
- any facility-specific security deposit held by the ERCB will be applied first to the facility for which it was collected, with any surplus being available for any unfunded liability held by the licensee.

The ERCB's requirements with respect to the form, use, and refund of security deposits provided under a liability management program are in *Directive 068: ERCB Security Deposits.*

A licensee can view information on the type and amount of any security deposit it has with the ERCB on the Digital Data Submission (DDS)/Reports/Liability Rating page on the ERCB Web site www.ercb.ca using its DDS Logon ID and password.

7 Orphan Program and Fund

The Orphan Fund will pay the costs to suspend, abandon, remediate, and reclaim a well, facility, or pipeline included in the LLR Program if a licensee or working interest participant (WIP) becomes defunct.

The Orphan Fund is fully funded by licensees in the LLR Program and licensees holding Waste Management (WM) approvals and licences included in the OWL Program through a levy administered by the ERCB.

The Orphan Fund is administered by the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (OWA), a nonprofit society incorporated under the *Societies Act* on March 20, 2001.

7.1 Orphan Site

A well, facility, or pipeline in the LLR Program is eligible to be declared an orphan when the licensee of that licence becomes defunct. The ERCB will designate a facility meeting this criterion as an orphan, in accordance with Section 70(2) of the *Oil and Gas Conservation Act*. The well, facility, or pipeline will be an orphan for all aspects of this program: suspension, abandonment, remediation, and reclamation.

7.2 LLR and OWL Orphan Levy Base and Formula

A licensee in the LLR or OWL Program is responsible for its percentage of any orphan levy calculated as the sum of the deemed liability of its licences in the LLR and OWL programs to

the total liability of all licences in the LLR and OWL programs as of the date the levy is calculated, in accordance with the following formula:

$$\text{Licensee's share of levy} = \frac{A}{B} \times \text{required levy amount}$$

where

- A is the licensee's deemed liability in the LLR and OWL programs on the date the levy is calculated, determined in accordance with this directive and *Directive 075,* and
- B is the deemed liability of all licences in the LLR and OWL programs on the date the levy is calculated, determined in accordance with this directive and *Directive 075.*

The deemed liability of licences in the LFP is tracked and, as required, assessed separately, as the LFP has a separate and distinct orphan levy base.

7.3 OWL NPL Levy

NPLs in the OWL Program are subject to an additional transitional levy, which is detailed in *Directive 075.*

8 LLR Program Administration

8.1 Program Operation

Detailed information on the operation of the LLR Program and its licence transfer requirements is in Appendices 2 through 7.

8.2 Confidentiality

The ERCB will hold as confidential the information submitted to or acquired by the ERCB for the purpose of conducting an LMR assessment. The ERCB will post only the licensee's security-adjusted LMR on its Web site.

8.3 Noncompliance

A licensee that fails to comply with a requirement of the LLR Program is in noncompliance and is subject to the enforcement provisions of *Directive 019: ERCB Compliance Assurance—Enforcement.* A list of risk-assessed noncompliances is available on the ERCB Web site www.ercb.ca/Industry Zone : Compliance and Enforcement : Risk Assessed Noncompliance.

8.4 Program Review

The ERCB will continually monitor the LLR Program to ensure that it is achieving its desired outcome and is protecting both the public interest and the Orphan Fund.

8.5 Program Resources

Inquiries regarding the requirements of this directive or any ERCB liability management program should be directed by e-mail to LiabilityManagement@ercb.ca or by phone to the Liability Management Group's help line at 403-297-3113.

Appendix 1 Licence Types Included in the LLR Program and Protected by the Orphan Fund

1 LLR Program and Orphan Fund Inclusions

The following upstream oil and gas wells, facilities, and pipelines are protected by the Orphan Fund and included in the LLR Program:

Wells (code from *Directive 056: Energy Development Applications and Schedules* provided in brackets)

- oil, gas, and bitumen wells (140, 150, 280, 290, 360, 370, 570, 610, 620, 621, 622)
- injection wells
- disposal wells Class I(b), II, III, and IV
- gas storage wells
- oilfield source water wells (141)
- observation wells
- brine wells
- liquefied petroleum gas (LPG) wells

The following upstream oil and gas wells, while protected by the Orphan Fund, are not administered in the LLR Program:

- oil and gas wells drilled by industry and transferred as a farm gas well
- unlicensed sites associated with oilfield activities (e.g., remote sumps)

Facilities (*Directive 056* code provided in brackets)

- gas, oil, and bitumen batteries, single or multiwell (020, 030, 031, 310, 311, 320, 321, 330, 331, 410, 411, 420, 421, 430, 431)
- gas processing and fractionating plants (010, 011, 300, 301, 400, 401)
- sulphur recovery gas plants licensed under *Directive 056* as a Facility Category Type 300 (producing less than 1 ton of sulphur per day)
- oil sands central processing facilities having a design capacity of less than 5000 cubic metres (m^3) per day
- compressor stations, except those that are part of an oil or gas transmission pipeline (040, 340, 440)
- custom treating facilities (080)
- injection/disposal facilities—water (090)
- injection/disposal facilities—enhanced oil recovery (EOR) (091)
- oil and bitumen satellites, single or multiwell (070, 071, 350, 351, 450, 451)
- line heaters (352, 470)
- oilfield waste management components that do not require a Waste Management Approval (see *Interim Directive [ID] 2000-03: Harmonization of Waste Management*)

Pipelines

- oil and gas pipelines other than transmission lines

2 LLR Program and Orphan Fund Exclusions

The following wells, facilities, and pipelines are excluded from the LLR Program and Orphan Fund:

Wells (*Directive 056* code provided in brackets)

- wells designated as contaminated under Section 110 of the *Environmental Protection and Enhancement Act*
- water wells less than 150 m (licensed in error)
- municipal water wells
- domestic and farm water wells
- test holes
- industrial waste disposal wells, Class 1(a)
- oil sands evaluation (OV Lahee Class 11)
- farm and domestic gas wells **not** drilled by industry as an oil or gas well
- training wells (if there is no penetration of a hydrocarbon formation and they are used solely for the testing of downhole tools and/or training of personnel to use such tools)

Facilities (*Directive 056* code provided in brackets)

- facilities designated as contaminated under Section 110 of the *Environmental Protection and Enhancement Act*
- mine site or coal processing plant as defined in the *Coal Conservation Act*
- mine site or processing plant as defined in the *Oil Sands Conservation Regulation*
- oil sands central processing facilities having a design capacity of 5000 m^3/day or greater
- sulphur recovery facilities (600), except those licensed under *Directive 056* as a Facility Category Type 300 (producing less than 1 ton of sulphur per day)
- oilfield waste management facilities that require a Waste Management Approval (see *ID 2000-03)*
- standalone straddle plants (200, 302)
- refineries as defined in the *Pipeline Act*
- sites on which a sulphur recovery straddle plant or oil sands central processing facility having a design capacity of 5000 m^3/day or greater previously existed
- facilities listed in the *Oil and Gas Conservation Regulations* as exempt from this program

Pipelines

- gas transmission pipelines and associated compression and measurement facilities licensed to the licensee of the pipeline
- oil transmission pipelines and associated storage, pumping, and measurement facilities licensed to the licensee of the pipeline

Appendix 2 Licence Transfer Process and LMR Assessments

1 Electronic Submission of Applications

A licence transfer application must be submitted electronically through the ERCB's Licence Transfer System (LTS), accessed through the Digital Data Submission (DDS) system.

A licensee can access the DDS system through the ERCB Web site www.ercb.ca using the identification code and password established for the licensee. The ERCB Information Collection and Dissemination Group is responsible for assigning DDS access codes and passwords. A licensee that is not able to access the DDS system for any reason should e-mail ERCB.DDSAdministrator@ercb.ca for assistance. Licensees are requested to contact their system administrator to determine their current DDS access status before contacting the ERCB.

Regardless of their liability management program classification, well, facility, and pipeline licences may all be included within a single application.

The ERCB will process licence transfer applications as they are received. It will not hold an application pending receipt of a subsequent application(s) in order to facilitate an LMR assessment of the combined applications.

The ERCB encourages licensees to contact the Liability Management Group if they have any questions regarding a proposed licence transfer application prior to its submission. Inquiries should be directed by e-mail to LiabilityManagement@ercb.ca or by phone to the liability management help line at 403-297-3113.

2 Application Requirements

The transferor, the transferee, or an authorized agent or consultant acting on their behalf may submit a licence transfer application in accordance with this directive. Information on agent appointments is in *Directive 067: Applying for Approval to Hold EUB Licences.*

The applicant is responsible for filing a complete and accurate application and for advising the other party that the application has been submitted to the ERCB.

Before a licence transfer application will be accepted by the LTS system, both parties must confirm that the information in the application is correct and accept a declaration stating that they have complied with a list of specified ERCB requirements.

A licence transfer application that is submitted by one party but not accepted by the other party within 90 days will be closed and the submitting licensee advised of its closure. This procedure is designed to ensure a timely process for determining the party responsible for licences contained within an application.

3 ERCB Identification Code

The LTS system will not accept a licence transfer application unless both the transferor and transferee have an ERCB identification code that permits the holding of all licence types within the licence transfer application. Additional information on ERCB identification code requirements is in *Directive 067.*

4 Corporate Compliance Record

The ERCB reviews the compliance record of both the transferor and transferee as part of its licence transfer application process. If either the transferor or transferee has a "REFER" status, the application is considered nonroutine. The ERCB assesses the circumstances surrounding the proposed transfer, including the nature and complexity of the issues that resulted in the REFER status, whether regulatory requirements have been satisfied, and whether a security deposit is required. A nonroutine licence transfer application requires additional time to process.

Information on REFER status and the ERCB's enforcement processes is in *Directive 019*.

5 Working Interest Participants

Sections 16 and 17 of the *Oil and Gas Conservation Act* require a licensee to hold a working interest participation in each well or facility for which it is the licensee. Applicants must therefore identify the working interest owners in each well and facility included in a licence transfer application.

6 Transfer of Abandoned Wells and Facilities and of Discontinued Pipelines

If all other requirements have been met, the ERCB permits licences for abandoned wells and facilities and discontinued pipelines to be transferred only in the following cases:

a) a licence for a well that is surface abandoned according to ERCB records (cut, capped, and properly reported) and that requires but is not in receipt of a reclamation certificate or its equivalent from the appropriate regulatory authority; or

b) a licence for a facility that is abandoned according to ERCB records and that requires but is not in receipt of a reclamation certificate or its equivalent from the appropriate regulatory authority.

The ERCB does **NOT** permit licences for abandoned wells and facilities and for discontinued pipelines to be transferred in the following cases:

a) a licence for a well or facility that is abandoned and is in receipt of a reclamation certificate or its equivalent from the appropriate regulatory authority;

b) a licence for a well or facility that is abandoned and "reclamation exempt." Inquiries regarding the criteria for a well or facility to be classified as reclamation exempt should be directed to Alberta Environment (e-mail: land.management@gov.ab.ca; telephone: 780 427-5445); and

c) a licence for a well or facility that is abandoned and is in receipt of an overlapping reclamation certificate exemption for its surface location from Alberta Environment or Alberta Sustainable Resource Development.

Note that the approval of a transfer of an abandoned well licence does **NOT** permit the new licensee to reenter that well. A licensee that intends to reenter an abandoned well or reactivate an abandoned pipeline must submit an application in accordance with *Directive 056*.

7 Transfer of Gas Plants

A licence for a 40-well equivalent non-sulphur recovery gas plant cannot be transferred unless the facility has a liability cost estimate based on a site-specific liability assessment meeting the requirements of *Directive 001* accepted by the ERCB.

A licence for a 20-well equivalent non-sulphur recovery gas plant cannot be transferred unless the facility has a liability cost estimate based on a site-specific Phase I Environmental Site Assessment accepted by the ERCB.

A licence for a 10-well equivalent non-sulphur recovery gas plant cannot be transferred unless the facility has a liability cost estimate based on a site-specific corporate estimate meeting Canadian Institute of Chartered Accountants (CICA) standards.

8 Licence Transfer LMR Assessments—Security Deposit Requirements

On receipt of a licence transfer application, the ERCB will conduct an LMR assessment of both the transferor and the transferee. The licence transfer LMR assessment is conducted as if the transfer were approved (post-transfer LMR).

If both the transferor and transferee have a Post-Transfer LMR equal to or exceeding 1.0, a security deposit will not be required from either party.

If either the transferor or transferee has a Post-Transfer LMR below 1.0, a security deposit for the difference between its deemed liabilities and deemed assets plus any existing liability management security deposits must be received by the ERCB before the licence transfer application is approved.

An application that contains pipeline licences that are not "designated problem sites" will not result in the generation of an LMR assessment of either the transferor or transferee.

9 Licence Transfer LMR Assessments—Security Deposit Due Dates

A transferor or transferee required to submit a security deposit as a result of a licence transfer application will have 30 days from the licence transfer LMR assessment date to provide the required security deposit to the ERCB. The ERCB will advise a transferor or transferee in writing of the amount of any security deposit required and of the date by which the security deposit must be received.

If a transferor or transferee has an outstanding monthly LMR assessment and is required to submit a further security deposit as a result of a licence transfer application, it will have until the expiry of the due date for payment of the monthly LMR assessment to submit that security deposit and 30 days from the transfer LMR assessment date to submit the incremental security deposit required.

If a required security deposit is not received by the due date, the licence transfer application will be closed and the transferor will be required to establish that it retains the rights to hold any licence included within the cancelled licence transfer application.

10 Licence Transfer Decision

A licence transfer application may be approved, approved with conditions, or denied.

The ERCB will convey its decision regarding a licence transfer application to both the transferor and the transferee. If a transferor or transferee is represented by an agent or uses the services of a consultant, the ERCB will also provide notice of its decision to the agent or consultant.

Responsibility for any well, facility, or pipeline in a licence transfer application remains with the existing licensee (transferor) until the ERCB approves the transfer. On approval of a

licence transfer application, the new licensee (transferee) becomes responsible for any well, facility, or pipeline licence in the application.

Appendix 3 Licence Status Change Notification Process

The ERCB requires accurate information on the operational status of wells, facilities, and pipelines to correctly determine their abandonment and reclamation liability in monthly and licence transfer LMR assessments and for use in the orphan levy calculation.

1 Electronic Submission of Notification

A licence status change notification must be submitted electronically through the ERCB's Digital Data Submission (DDS) system and the appropriate subsystem. Facility abandonment notifications, linked facility notifications, and well licence name change notifications are submitted using the Licence Notification System (LNS) subsystem, while multiwell pad notifications are submitted on the Multi Licence Pad (MLP) subsystem.

2 Well and Facility Abandonment Notification

A licensee must notify the ERCB within 30 days of the completion of the abandonment of a licensed well or facility. A licensee is required to identify all WIPs in the well or facility at the time of abandonment, with WIP participation totalling 100 per cent.

3 Linked Facility Notification

Directive 056 permits a licensee to "link" a nonproduction reporting facility to the first downstream production reporting facility to which it delivers product. A nonproduction reporting facility can only be linked to one production reporting facility at a time, while a reporting facility may have more than one nonproduction reporting facility linked to it.

4 Well Name Change Notification

The ERCB does not use well names and encourages licensees not to submit a well name change notification. At this time, however, a licensee remains able to submit a well name change notification to the ERCB through the LNS subsystem or, for wells included in a licence transfer application, as part of that application. A proposed well name change must be consistent with the ***Oil and Gas Conservation Regulations***. The ERCB does not accept notification of facility name or facility name changes.

5 Multiwell Pad Notification

A licensee may establish a multiwell pad for those sites on which it has more than one well on a single surface lease. Both the well licences and the surface lease must be held by the same licensee. The establishment of a multiwell pad provides for a reduction in the reclamation liability of the wells located on the pad. (Refer to Appendix 6: Deemed Liabilities for details of this calculation.)

Appendix 4 LMR and LLR Assessment Formulas

1) Calculation of LMR Rating

The following LMR formula is applicable to producer licensees in the LLR Program:

$$\text{LMR} = \frac{\text{DA in LLR}}{\text{DL in LLR} + \text{DL in LFP (if any)} + \text{DL in OWL (if any)}}$$

where
DA = deemed assets
DL = deemed liabilities

The following LMR formula is applicable to NPL and eligible producer licensees in the LLR:

$$\text{LMR} = \frac{\text{DA in LLR} + \text{DA in LFP (if any)} + \text{DA in OWL (if any)}}{\text{DL in LLR} + \text{DL in LFP (if any)} + \text{DL in OWL (if any)}}$$

The calculation of a licensee's deemed assets and deemed liabilities in the LLR are detailed in Appendix 5: Deemed Assets and Appendix 6: Deemed Liabilities.

2) Calculation of LLR

The following LLR formula is applicable to producer licensees in the LLR Program:

$$\text{LLR} = \frac{m^3 \text{ OE x Industry average parameters x 3 years}}{\text{Sum of the deemed liabilities}}$$

The following LLR formula is applicable to NPLs and eligible producer licensees in the LLR Program:

$$\text{LLR} = \frac{(\text{NPL vol. x licensee netback x 3 years}) + (m^3 \text{ OE (if any) x Industry average parameters x 3 years})}{\text{Sum of the deemed liabilities}}$$

Deemed liabilities in the LLR Program consist of

- total calculated active well site liability x present value and salvage (PVS) factor of 0.75
- total calculated active non-gas plant facility site liability x PVS of 0.50
- total calculated inactive well site liability x PVS of 1.0
- total calculated inactive non-gas plant facility site liability x PVS of 1.0
- total calculated gas plant facility (active or inactive) site liability x PVS of 1.0
- total calculated abandoned but uncertified well regional reclamation liability x PVS of 1.0
- total calculated abandoned but uncertified facility regional reclamation liability x PVS of 1.0
- total designated problem site liability determined by site-specific liability assessment x PVS of 1.0
- total potential problem site liability:
  - for monthly LLR assessment purposes if the site has not been transferred, calculated well or facility abandonment and reclamation liability x site's PVS factor, or
  - for licence transfer assessment purposes OR if the site has been transferred for monthly LLR assessment purposes until the required environmental site assessment has been completed, calculated well or facility abandonment and reclamation liability with either or both component multiplied (based on purpose of site assessment) by 20 times x PVS of 1.0.

Appendix 5 Deemed Assets

The deemed assets of a producer licensee, eligible producer licensee, and nonproducer licensee (NPL), while based on the same principles and methodology, are determined using different parameters and volumes.

1 Producer Licensee

The deemed assets of a producer licensee is the cash flow derived from oil and gas production reported to the PRA from wells for which it is the licensee. Deemed assets are calculated by multiplying a licensee's reported production of oil and gas from the preceding 12 calendar months in cubic metres oil equivalent (m^3 OE) by the rolling 5-year average industry netback by 3 years, where

- *m^3 OE* is defined as the 12-month production of oil plus gas volumes reduced by a *shrinkage factor* (sales gas) and a gas/oil *(m^3 OE) conversion factor*. Crude oil, bitumen, and field condensate are treated as oil. Natural gas liquid revenue is included in the gas revenue. Sulphur is excluded.
- The *shrinkage factor* is a rolling 5-year provincial industry average.
- The *m^3 OE conversion factor* is a rolling 5-year provincial industry average.
- *Industry netback* is a rolling 5-year provincial industry average netback.

The current *shrinkage factor*, *m^3 OE conversion factor*, and *industry netback* factors are in *Directive 011*. These parameters will be updated as appropriate and in conjunction with updated deemed liability parameters.

The ERCB's use of production information reported to the PRA results in a 2-month delay between the last day of a production month and the date that month's production is available for use in the LLR calculation. This delay accommodates the late submission of production information and subsequent data corrections.

2 Eligible Producer Licensees

The deemed asset of an eligible producer licensee is the sum of its cash flow derived from oil and gas production reported to the PRA from wells for which it is the licensee calculated in accordance with Section 1, and the cash flow derived from midstream activity from wells or facilities for which it is the licensee calculated in accordance with Section 3.

3 Nonproducer Licensees

Due to the limited number of licensees in this industry subsector and the mix of public and private companies, the determination of an industry average netback is not possible. As a result, each NPL must calculate its own netback and have it reviewed and approved by the ERCB annually.

An NPL must submit its request for an approval of a netback to the ERCB on the designated form (Appendix 12), together with all required supporting documentation. The ERCB treats financial information submitted in support of an NPL netback as confidential. An approved netback is valid for a 12-month period, commencing the month it was approved by the ERCB. An NPL must submit a request for approval of its netback for the following year 30 days before the expiry of its approved 12-month period.

Failure to submit or to obtain ERCB approval of its netback will result in the NPL's netback being set at $0.00 and the requirement for the NPL to place a security deposit with the ERCB to offset all of the NPL's calculated deemed liability.

An NPL not prepared to provide the financial information required by the ERCB to verify a netback calculation must submit a security deposit for 100 per cent of its deemed liability.

The deemed asset of an NPL is the sum of the cash flow derived from facility throughput of water injection/disposal, oil processing, and gas processing reported to the PRA from facilities for which it is the licensee, and the cash flow derived from oil and gas production reported to the PRA from any well for which it is the licensee.

The deemed asset of an NPL is calculated by multiplying the NPL volume from the preceding 12 calendar months by the NPL's netback by 3 years, where

- *NPL volume* is defined as the 12-month volume of oil, gas, and water processed or injected through the licensee's facilities (an NPL processing oil or gas from wells for which it is the licensee must subtract these volumes in its NPL deemed asset calculation), and
- *NPL netback* is defined as the NPL's net profit per unit of volume processed or injected.

If an NPL has oil or gas production, the cash flow derived from those volumes will be determined in accordance with Section 1 using the **industry average netback** and will be included in the deemed asset calculation.

4 Calculating Deemed Assets—Gas Storage Operators

Because gas storage wells may report either production or injection on a monthly basis, a means of including an appropriate asset value in the calculation of deemed assets is needed. A licensee operating a gas storage facility is required to identify storage wells that form part of a particular storage facility and to report the minimum operating pressure and the storage facility production rate at that pressure as part of its annual storage filing with the ERCB.

A licensee operating a gas storage facility is to add its m^3 OE for ERCB-approved storage facilities, instead of its actual production from these wells, to its m^3 OE.

m^3 OE for ERCB-approved storage facilities is defined as the production rate that a licensee's storage facilities would be capable of at the minimum reservoir pressure experienced in the previous storage facility reporting period.

5 Gas Plants Having a *Directive 001* Liability Assessment

An NPL having a gas plant on which the ERCB has accepted a liability assessment meeting the requirements of *Directive 001* may calculate the deemed asset value of that gas plant using a facility-specific netback. An NPL exercising this option must provide the ERCB with a completed Facility Netback Calculation Form (Appendix 12) and required supporting documentation. Should an NPL exercising this option already have an approved licensee netback, it must provide the ERCB with an updated Nonproducer Licensee Netback Calculation Form (Appendix 10) that excludes any volumes associated with that facility, as well as any required documentation.

Appendix 6 Deemed Liabilities

The deemed liability of a producer licensee, eligible producer licensee, and nonproducer licensee (NPL) is determined in the same manner. The deemed liability of a licensee is the sum of the costs to suspend, abandon, remediate, and reclaim all wells and facilities for which it is the licensee, adjusted for status (active, inactive, abandoned, and problem site designation) and present value and salvage (PVS) factor.

1 Definitions

For the purpose of the LLR Program, terms are defined as follows:

- *Active well* is a well that has reported an operation (production or injection) to the PRA in the last 12 calendar months or is classified as an observation well by the ERCB.
- *Active facility* is a facility (other than a gas plant) that has reported an operation (throughput) to the PRA in the last 12 calendar months or is a nonproduction reporting facility linked to an active facility.
- *Inactive well* is a well that has not reported an operation (production or injection) to the PRA in the last 12 calendar months.
- *Inactive facility* is a facility (other than a gas plant) that has not reported throughput to the PRA in the last 12 calendar months or is a nonproduction reporting facility that has not been linked or that has been linked to an inactive facility.
- *Abandoned unreclaimed well* is a well that according to the records of the ERCB has been "surface abandoned" but is not in receipt of a reclamation certificate or its equivalent from the appropriate regulatory authority.
- *Abandoned unreclaimed facility* is a facility that according to the records of the ERCB has been abandoned but is not in receipt of a reclamation certificate or its equivalent from the appropriate regulatory authority.
- *Gas plant* is a facility licensed by the ERCB through *Directive 056* as a gas processing or gas fractionating plant (codes 010, 011, 300, 301, 400, 401) that is not included in the Large Facility Liability Management Program.
- *Potential problem site* is a site identified by the ERCB as having
  - a potential abandonment liability equal to or greater than 4 times the amount normally calculated for that type of site in that regional abandonment cost area, or
  - a potential reclamation liability equal to or greater than 4 times the amount normally calculated for that type of site in that regional reclamation cost area.
- *Designated problem site* is a site designated by the ERCB on the basis of a cost estimate determined from an assessment conducted according to *Directive 001* that shows that the site's
  - abandonment liability equals or exceeds 4 times the amount normally calculated for that type of site in that regional abandonment cost area, or
  - reclamation liability equals or exceeds 4 times the amount normally calculated for that type of site in that regional reclamation cost area.

- *Facility Well Equivalent Table* is the table below that provides the well equivalent for each facility based on its category or fluid type and licensed design capacity:

Facility Well Equivalent Table

Category/Fluid Type	Licensed Design Capacity	Well Equivalent
Oil/bitumen processing or injection/disposal facility	0-50 m^3 fluid/day	5
	> 50 m^3 ≤500 m^3/day	10
	> 500 m^3 ≤3000 m^3/day	20
	> 3000 m^3/day	40
Oil/bitumen satellite	Any throughput level	2
Line heaters	Any throughput levels	2
Gas processing facility	0-900 10^3 m^3 gas inlet/day	10
	>900 10^3 m^3 /day ≤ 2500 10^3 m^3/day	20
	>2500 10^3 m^3 /day	40
Gas (compressor, dehydration, etc.) facility	Any throughput level	5

- *New well* is a well that has not been abandoned within 12 calendar months of its finished drilling date.
- *New facility* is a facility that has not reported throughput or been abandoned within 12 calendar months of its licence approval date.
- *Non-gas plant* is any facility licensed by the ERCB through *Directive 056* not having a facility type description of gas processing plant or gas fractionating plant.
- *Present value and salvage (PVS) factor* is the factor assigned to a well or facility to reflect the timing of abandonment and reclamation and the future value of equipment salvage. The PVS factor varies based on whether the well or facility is active, inactive, abandoned, new, or a potential or designated problem site. The PVS factors are as follows:

Well or facility status	PVS factor
Active well	0.75
Active (non-gas plant) facility	0.50
Inactive well	1.0
Inactive (non-gas plant) facility	1.0
Gas plants (active or inactive)	1.0
Abandoned unreclaimed well	1.0
Abandoned unreclaimed facility	1.0
Designated problem site	1.0
Potential problem site on transfer	1.0
Potential problem site post-transfer (until site-specific liability assessment complete)	1.0
New well	1.0
New facility	1.0

The PVS factor of a potential problem site that has not been transferred is the PVS factor ordinarily assigned to that well or facility based on its status.

- *Abandonment cost estimate acceptable to the ERCB* is an abandonment cost estimate based on a site-specific liability assessment conducted according to *Directive 001* and submitted to the ERCB in the specified level of detail.

- *Reclamation cost estimate acceptable to the ERCB* is a reclamation cost based on a site-specific liability assessment conducted according to *Directive 001* and submitted to the ERCB in the specified level of detail.

- *Regional Abandonment Cost Map* is the map provided as Appendix 8. This map illustrates the boundaries of the geographic regions for which average well abandonment costs are determined.

- *Regional Reclamation Cost Map* is the map provided as Appendix 9. This map illustrates the boundaries of the geographic regions for which average well and facility well equivalent costs are determined.

2 Calculation of Deemed Liability

While the deemed liability of a well or facility includes the costs to suspend, abandon, remediate, and reclaim the site, this liability is captured under the terms abandonment and reclamation.

2.1 Deemed Liability of a Well

The deemed liability of a well is the sum of its abandonment and reclamation liability adjusted for PVS status. The liability for an abandoned but uncertified or unreclaimed well is solely its reclamation cost.

The abandonment liability of a well is determined on a site-specific basis using the ERCB's licence cost processing program. It estimates the cost to abandon a well based on the depth of the well, the number of events requiring abandonment, the requirement for groundwater protection, and whether there is gas migration or surface casing vent flows. The wellbore configuration is based on the current operational status of the well (e.g., "crude oil pumping" considers the well to have tubing and rods) or, in the case of a suspended well, the last reported operational status issued. The requirement for groundwater protection is included in the calculation if the surface casing depth is less than the deepest aquifer requiring protection.

The reclamation liability of a well is the cost specified by the Regional Reclamation Cost Map for the area in which the well is located.

2.1.1 Deemed Liability of a New Well

A new well, as defined in this directive, will not have its deemed liability included in its LLR calculation until the earlier of its abandonment date or 12 calendar months from its finished drilling date.

2.1.2 Deemed Liability of a Multiwell Pad

The abandonment liability for wells located on a multiwell pad is the sum of the abandonment liability calculated for each well located on the pad. The reclamation liability for wells located on a multiwell pad is 100 per cent of the reclamation cost specified for a well in the Regional Reclamation Cost Map area in which the pad is located for the first well plus 10 per cent of that value for each additional well on the same pad.

2.2 Deemed Liability of a Non-Gas Plant Facility

The deemed liability of a non-gas plant facility is the sum of its abandonment liability plus its reclamation liability adjusted for PVS status. The liability for an abandoned but uncertified or unreclaimed facility is solely its reclamation cost.

The abandonment liability of a non-gas plant facility is determined by multiplying its well equivalent, determined from the Facility Well Equivalent Table, by the well equivalent cost.

The reclamation liability of a non-gas plant facility is determined by multiplying its well equivalent, determined from the Facility Well Equivalent Table, by the cost specified by the Regional Reclamation Cost Map for the area in which the facility is located.

2.3 Deemed Liability of a Gas Plant

The cost estimates must be the total undiscounted current-day estimates for suspension, abandonment, remediation, and reclamation.

The deemed liability of a 40-well-equivalent gas plant is the cost estimate based on a site-specific liability assessment meeting the requirements of *Directive 001* provided by the licensee and accepted by the ERCB.

The deemed liability of a 20-well-equivalent gas plant is the cost estimate based on a site-specific Phase I environmental site assessment, with additional work to a Phase II environmental site assessment standard where required by the results of the Phase I assessment, that is provided by the licensee and accepted by the ERCB.

The deemed liability of a 10-well-equivalent gas plant is the cost estimate based on a site-specific liability assessment meeting Canadian Institute of Chartered Accountants (CICA) standards that is provided by the licensee and accepted by the ERCB.

Gas Plant Cost Estimates

All site-specific liability assessments provided for gas plants must be completed using the Facility Liability Declaration Form (Appendix 11) and submitted electronically to the ERCB through its DDS system.

Gas plant cost estimates must reflect the total undiscounted current-day cost to suspend, abandon, remediate, and reclaim the site, and identify any seller-retained liability.

The ERCB will review submitted Facility Liability Declaration Forms; if the ERCB considers that a facility cost estimate deviates significantly from that of similar facilities, it may require the licensee to provide all supporting documentation on which the cost estimate was based and conduct a detailed review of the cost estimate and documentation.

2.4 Deemed Liability of a Facility

2.4.1 Deemed Liability of a Linked Facility

In accordance with *Directive 056*, a nonproduction reporting facility (satellite, compressor) **may** be "linked" to the first downstream production reporting facility to which it delivers product. The linked nonproduction reporting entity receives the active or inactive PVS factor of the production reporting entity to which it is linked. A nonreporting facility that is not linked to a production reporting entity has a PVS of 1.0.

2.4.2 Deemed Liability of a New Facility

A new facility, as defined in this directive, will not have its deemed abandonment and reclamation liability included in its LLR calculation until the earliest of its first reported throughput, abandonment date, or 12 calendar months from its licence approval date.

2.5 Pipelines

A pipeline licence is not considered in the calculation of deemed liabilities unless it is a designated problem site.

2.6 Problem Sites

2.6.1 Potential Problem Site

A "potential problem site" is identified by the ERCB through an on-site inspection. This inspection may be conducted in the course of normal ERCB field activities or in response to a request from a landowner or Alberta Environment. If an inspection indicates that a site's abandonment or reclamation liability equals or exceeds 4 times the amount normally calculated for that type of site in that abandonment or reclamation region, the site will be classified as a potential problem site. See *Directive 001* for conditions that may result in this classification.

The ERCB will advise a licensee of any site identified as a potential problem site and provide the licensee with an opportunity to respond to the identification. If a licensee cannot establish that the potential problem site identification was in error, the licensee must have a site-specific liability assessment conducted on the site in accordance with ERCB *Directive 001* at its expense and within the time period specified by the ERCB.

If a site-specific liability assessment acceptable to the ERCB is conducted on a potential problem site and the assessment confirms that site has an abandonment liability less than 4 times the cost determined by the Regional Abandonment Cost Map or a reclamation liability less than 4 times the cost determined by the Regional Reclamation Cost Map, the potential problem site classification will be removed.

If a site-specific liability assessment acceptable to the ERCB is conducted on a potential problem site and the assessment confirms that the site has an abandonment liability equal to or greater than 4 times the cost determined by the Regional Abandonment Cost Map or a reclamation liability equal to or greater than 4 times the cost determined by the Regional Reclamation Cost Map, the site will be classified as a "designated problem site." That designation will remain in effect until abandonment or reclamation work has been conducted on the site and a subsequent site-specific liability assessment acceptable to the ERCB estimates the associated costs at less than 4 times the amounts normally calculated for that site. The deemed liability of a former designated problem site will subsequently be the new estimated amount.

The costs determined from a site-specific liability assessment accepted by the ERCB will be used in calculating the deemed liability of the assessed site regardless of whether those costs are higher or lower than those that would ordinarily be determined by the LLR formula.

While the liability assessment is being prepared, for monthly LMR assessment purposes the liability of a potential problem site is calculated as if it were not a potential problem site.

For licence transfer LMR assessment purposes, the liability calculated for a potential problem site included in an application is

- the sum of its calculated abandonment cost and 20 times the reclamation cost for that type of site in that reclamation cost area where a site-specific reclamation assessment is required times a PVS of 1.0, or
- the sum of its calculated reclamation cost and 20 times the abandonment cost for that type of site in that abandonment cost area where a site-specific abandonment assessment is required times a PVS of 1.0, or
- the sum of 20 times the abandonment cost for that type of site in that abandonment cost area and 20 times the reclamation cost for that type of site in that reclamation cost where a site-specific abandonment and reclamation assessment is required times a PVS of 1.0.

A licensee acquiring a potential problem site will have the site's liability calculated at this higher rate for monthly and transfer LMR assessments until the potential problem site identification is removed or converted to a designated problem site.

If a licensee of a potential problem site proposes to transfer a well and/or facility licence to another party while remaining the licensee of the potential problem site, the ERCB will assess whether approval of the transfer will result in the transferor having sufficient deemed assets to address the liability of the potential problem site and whether approval of the proposed licence transfer application is in the public interest.

2.6.2 Voluntary Disclosure of a Potential Problem Site

A licensee may voluntarily advise the ERCB of a potential problem site and, in so doing, propose its own schedule for completing a liability assessment conducted according to *Directive 001*. Self-disclosure of a potential problem site by a licensee enables the ERCB to develop a more comprehensive inventory of higher liability sites. A licensee advising the ERCB of potential problem sites is ordinarily permitted to conduct the site-specific liability assessment on the identified site in accordance with its own schedule and is not required to conduct a site-specific assessment within a specified period of time. The voluntary identification of a potential problem site by a licensee does not preclude the ERCB from requiring a site-specific liability assessment to be conducted within a specified period if it is in the public interest.

While the liability assessment is being prepared, for monthly LMR assessment purposes the liability of a self-disclosed potential problem site is calculated as if it were not a potential problem site. For transfer LMR assessment purposes, the liability of a self-disclosed potential problem site is calculated in the same manner as a potential problem site identified by the ERCB. Once reviewed and accepted by the ERCB, the costs estimated from the site-specific assessment are used in calculating the deemed liability of the assessed site.

2.6.3 Designated Problem Site

If a site-specific liability assessment conducted on a potential problem site confirms that the site has an abandonment liability equal to or greater than 4 times the cost determined by the Regional Abandonment Cost Map or a reclamation liability equal to or greater than 4 times the cost determined by the Regional Reclamation Cost Map, the site will be classified as a designated problem site.

For both monthly and licence transfer LMR assessment purposes, the deemed liability of a designated problem site is the sum of its abandonment liabilities determined by the LMR formula (unless a site-specific abandonment assessment was conducted) and its reclamation liability determined by the LLR formula (unless a site-specific reclamation assessment was conducted) times a PVS of 1.0. Costs determined from a liability assessment accepted by the

ERCB are used in place of the costs that would ordinarily be determined by the LMR formula.

3 Deemed Liability Parameter Updates

The ERCB will update and publish

- the costs to be used for each region of the Regional Abandonment Cost Map,
- the costs to be used for each region of the Regional Reclamation Cost Map,
- the costs to be used for the Licence Cost Processor, and
- the facility well equivalent cost

in conjunction with the updating of deemed asset parameters in *Directive 011*.

Appendix 7 Variation of LLR Formula Parameters

1 Licensee-Initiated Request for Variation of an LLR Parameter

The LLR Program is based on the use of provincial and regional averages, and their use may not accurately reflect the deemed assets or deemed liabilities of a particular licensee. As a result, the ERCB will consider a request by a licensee that does not meet the LMR threshold of 1.0 for a variation of one or more of the following LLR parameters.

The submission of a request for a variation does not eliminate or reduce a security deposit requirement determined by a monthly or transfer LMR assessment.

1.1 Licensee Netback

A licensee may request use of its own netback (including its own shrinkage and m^3 OE conversion factors) rather than the industry average netback in the LLR formula if it believes its average five-year netback is higher than the industry average netback.

A licensee requesting a variation of its netback must submit a letter requesting the variation, a completed Licensee Netback Calculation Form (Appendix 10), and financial information acceptable to the ERCB supporting its five-year historical netback, shrinkage, or conversion values. If a licensee does not have five years of history, its netback must include the industry average for those years required to make up the five-year period.

If a licensee-specific netback is approved as a result of a variation request, the approved netback will be used for the month the variation was approved and for each subsequent month until the industry average netback is updated by the ERCB. A licensee may request another variation of its netback after the industry netback has been updated, provided that its LMR remains below 1.0.

1.2 Well Abandonment Liability

A licensee may request the use of site-specific well abandonment costs rather than those determined by the ERCB's licence cost processing program in the LLR formula if it believes these more accurately reflect actual abandonment costs.

As the ERCB's Licence Cost Processor uses provincial or regional averages, a licensee requesting a variation of this factor must provide detailed site-specific abandonment cost estimates for **all** of its wells in order to prevent only lower-cost sites being reviewed.

Well abandonment costs determined from a site-specific assessment acceptable to the ERCB will replace those determined by the LLR formula for the wells for the following three calendar years.

1.3 Well Reclamation Liability

A licensee may request the use of site-specific well reclamation costs rather than those determined by the Regional Reclamation Cost Map in the LLR formula if it believes these more accurately reflect actual reclamation costs.

As the ERCB's well reclamation liability assessment tool is based on regional averages, a licensee requesting a variation of this factor must provide detailed site-specific reclamation cost estimates for **all** of its wells in order to prevent only lower-cost sites being reviewed.

Well reclamation costs determined from a site-specific assessment acceptable to the ERCB will replace those determined by the LLR formula for the wells for the following three calendar years.

1.4 Facility Abandonment Liability

A licensee may request the use of site-specific facility abandonment costs rather than those determined by the facility well equivalent and well equivalent cost factor in the LLR formula if it believes these more accurately reflect actual abandonment costs.

As the ERCB's facility abandonment liability assessment is based on provincial and regional averages, a licensee requesting a variation of this assessment must provide detailed site-specific abandonment cost estimates for **all** of its facilities in order to prevent only lower-cost sites being reviewed.

Facility abandonment costs determined from a site-specific assessment acceptable to the ERCB will replace those determined by the LLR formula for the facilities for the following three calendar years.

1.5 Facility Reclamation Liability

A licensee may request the use of site-specific facility reclamation costs rather than those determined by the Regional Reclamation Cost Map in the LLR formula if it believes these more accurately reflect actual reclamation costs.

As the ERCB's facility reclamation liability assessment tool is based on provincial and regional averages, a licensee requesting a variation of this assessment must provide detailed site-specific reclamation cost estimates for **all** of its facilities in order to prevent only lower-cost sites being reviewed.

Facility reclamation costs determined from a site-specific assessment acceptable to the ERCB will replace those determined by the LLR formula for the facilities for the following three calendar years.

1.6 Outstanding Reclamation Certificate

A licensee may request a 50 per cent reduction in the reclamation liability determined for an abandoned well or facility by the LLR formula if all of the work required to obtain a reclamation certificate or its equivalent from the appropriate regulatory authority has been completed and the delay in obtaining a reclamation certificate is solely to reestablish vegetative cover.

A licensee requesting a variation of this assessment will be required to provide detailed reclamation cost estimates based on a site-specific assessment.

A reduction in a well's or facility's reclamation costs based on an assessment acceptable to the ERCB will replace those determined by the LLR formula for the well or facility for the next 12 calendar months. Should a reclamation certificate not be received from Alberta Environment within this period, a licensee may request another variation on such sites if it again does not meet the LMR threshold.

2 ERCB Review of LLR Parameters

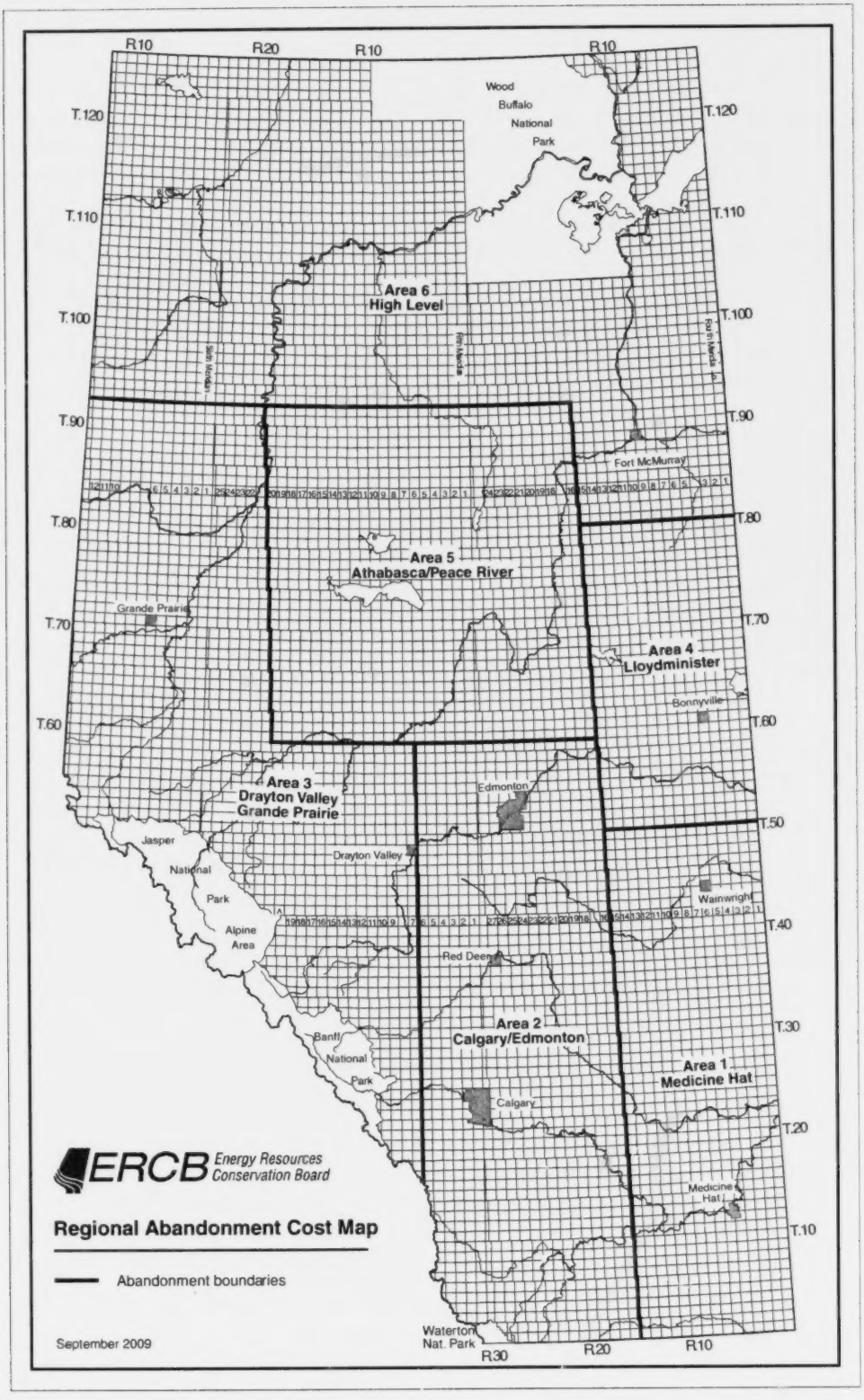
The ERCB may initiate a detailed review of a licensee's LMR if it believes the LLR formula does not accurately reflect the licensee's deemed assets and/or deemed liabilities.

As part of its detailed review process, the ERCB may require information on all factors used by a licensee in determining its netback. If as a result of a detailed review the ERCB determines that a licensee's use of the industry average netback is not warranted, the licensee's netback will be used to calculate its LMR until the industry average netback is updated.

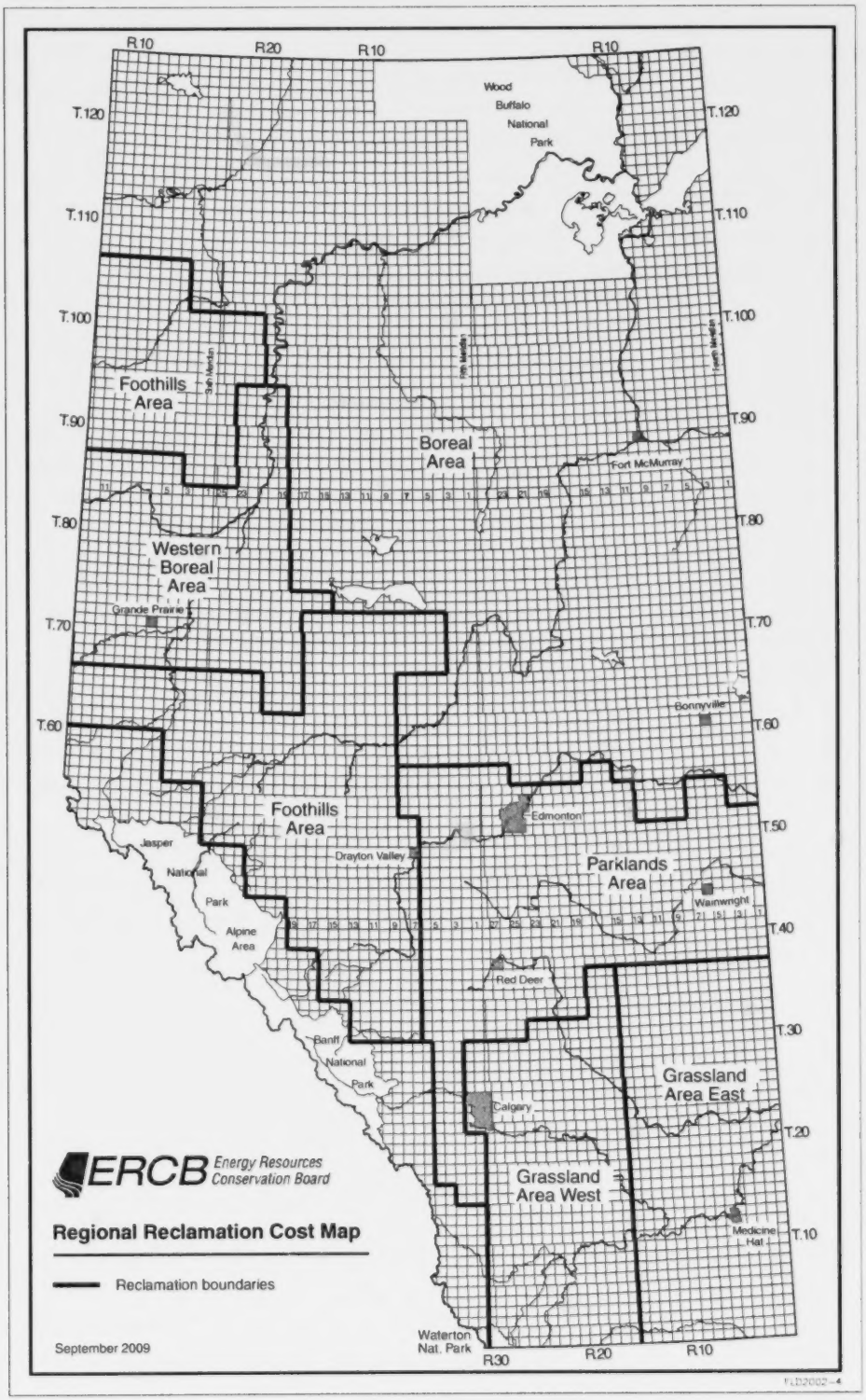
3 Detailed Review Process

A licensee requesting a variation of an LLR formula parameter is to direct its request and supporting documentation to the Section Leader, Liability Management, ERCB Corporate Compliance Group. If a site-specific assessment is required, it must be conducted in accordance with *Directive 001*.

Appendix 8 Regional Abandonment Cost Map



Appendix 9 Regional Reclamation Cost Map



Appendix 10 Licensee Netback Calculation Form

ERCB Energy Resources Conservation Board

Licensee Netback Calculation Form

Date of completion _____

Licensee name _____

ERCB four-digit company code _____

Licensee year-end _____

Accounting data time period _____

	Water injection/ disposal	Oil processing	Gas processing	Other revenue	Total
Revenue ($)					
Operating costs ($)					
Specific general & administrative costs ($)					
Net revenue ($)					
Production volumes (m^3 or $10^3 m^3$)					
Netback ($/$m^3$ or $/$10^3 m^3$)					

Note
A nonproducer licensee that is involved in more than one type of operation (injection/disposal, gas processing, oil processing) is required to complete the netback calculation separately for each type of operation.

The signature below certifies that the information contained within is complete and accurate.

Name (printed) _____

Position _____

Signature of corporate signing officer _____

Appendix 11 Facility Liability Declaration Form

ERCB Energy Resources Conservation Board

Facility Liability Declaration Form

Licensee name: _____

Facility location: _____ **Facility name:** _____

Facility ERCB licence number: F_____

Facility type: ☐ Sulphur recovery plant ☐ Straddle plant ☐ In situ oil sands central processing facility
☐ Historical sulphur recovery plant (currently operating as: _____ [facility type])

Date of Assessment: _____

Retained Liability: ☐ Liability retained by previous licensee through contract (describe on attached sheet).

Each cost estimate reported must be the total undiscounted current-day estimate for complete asset retirement obligations (suspension, abandonment, remediation, and reclamation).

Suspension and Abandonment (purging, dismantlement, and demolition costs):

Cost estimate: _____

Basis for estimate:

- ☐ fully meets *Directive 001*,
- ☐ based on a site-specific suspension and abandonment cost estimating model,
- ☐ based on preliminary suspension and abandonment cost estimates, or
- ☐ CICA ("accounting estimate"/Best Engineering).

Remediation (soil and groundwater):

Cost estimate: _____

Basis for estimate:

- ☐ fully meets *Directive 001*,
- ☐ based on a Phase II environmental site assessment,
- ☐ based on Phase I environmental site assessment, or
- ☐ CICA ("accounting estimate"/Best Engineering).

Surface Reclamation:

Cost estimate: _____

Basis for estimate:

- ☐ fully meets *Directive 001*,
- ☐ based on a Phase II environmental site assessment,
- ☐ based on Phase I environmental site assessment, or
- ☐ CICA ("accounting estimate"/Best Engineering).

Total facility liability estimate: _____

Note: If your company is only able to provide the total facility liability estimate and has not done a detailed assessment of suspension, abandonment, remediation, or reclamation costs, please provide the basis for your estimate:

_____

_____

_____

The signature below certifies that the information contained within is complete and accurate based on the best available information.

Signature of senior corporate officer or director _____

Position and professional designation _____

Date_____

Appendix 12 Facility Netback Calculation Form

ERCB Energy Resources Conservation Board

Facility Netback Calculation Form

Part A: Corporate Reconciliation

Date of completion _____

Licensee name _____

ERCB four-digit company code _____ Licensee year-end _____

	LLR Program	LFP	OWL Program	Other revenue or expense	Total for company
Revenue					
Operating costs					
Specific general and administrative costs					
Net revenue					

Part B: Facility Netback Calculation for the _____ Program

	Facility 1	Facility 2	Facility 3	Facility 4	Total
Facility ERCB licence or waste management approval number					
Facility type					
Licensee's percentage ownership of facility					
Revenue					
Operating costs					
Specific general and administrative costs					
Net revenue					
NPL volumes (m^3 or 10^3 m^3)					
Netback ($/$m^3$ or $/$10^3$ m^3)					

The signature below certifies that the information contained within is complete and accurate.

Name (printed) _____

Position _____

Signature of corporate signing officer _____

See the following page for instructions on how to complete this form.

Completing the Netback Calculation Form

- The ERCB must be able to clearly track the financial information provided on the Facility Netback Calculation Form back to the financial statements provided. An in-house profit-and-loss statement and/or an explanation of the methodology used to come up with the entries on the Facility Netback Calculation Form may be required.
- All entries reported on the Facility Netback Calculation Form must correspond to the same accounting time period as the company's corporate year-end financial statements.
- Excluded revenues are to be recorded in the "Other revenue or expense" column to reconcile totals with the company's corporate year-end financial statements.
- If the licensee's net revenue is negative for all the facilities that would normally be recorded on the Facility Netback Calculation Form, no netback submission is required, as an asset value will not be generated for a negative net revenue value.
- For the purpose of the netback submission, net revenue refers to earnings before interest, taxes, and depreciation and is equal to gross margin (midstream revenue less cost of goods sold) less direct operating costs and applicable general and administrative costs.
- The netback under liability management programs is intended to represent the net revenue value that a similar midstream licensee could achieve if it operated the same midstream facility. Therefore, revenue and expense items that would not be typical of facility operations should be excluded from the netback calculations.
- "Corporate Officer" is an position listed in the corporation's bylaws and ordinarily includes president, vice president, treasurer, and secretary.

NPL Volumes

- Directive 006 (LLR) and Directive 024 (LFP) – "NPL volumes" refers to the total received inlet volumes reported to the PRA against the reporting facility ID codes attached to your facility licences. Report only third-party volumes from which you generate revenue. Volumes from a licensee's own production are not to be included.
- Directive 075 (OWL) – "NPL volumes" refers to the volume of material that has been removed from a facility and/or disposed of permanently at a facility via deep well disposal that was initially received as industrial or oilfield waste.

Large Facility Program (LFP)

- *Directive 024* LFP submissions for straddle plants require a five-year average netback. List each of the five years separately using the format in Part B. Submit the corresponding financial documentation for the most recent year-end. If five years' worth of financial information is not available for a facility, the ERCB will use the average for the number of years that a licensee has owned the facility until such time as a five-year average is available.

Oilfield Waste Liability (OWL) Program

- The first waste management (WM) facility that receives the waste volumes is the facility that is to record the revenue for netback calculation purposes. The volumes reported must correspond to the same accounting period as the licensee's most recent year-end.
- Under the PRA, produced water going to a waste plant (WP) gets reported to the WP. Therefore, for those instances where the produced water is reported to a WP, the first WM facility that receives the produced water is the facility that is to record the volume and corresponding facility-specific netback for those volumes. The netback would not be reflected in the LLR Program in these instances.

Direct any questions by e-mail to LiabilityManagement@ercb.ca or to the Liability Management Group's help line 403-297-3113.